

LOGIC: South West



Q2 2023

Occupier and investment market trends in the South West logistics and industrial sector.

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Occupier Market

Rising completions expected to support steady uplift in take up.

TAKE UP EXPECTED TO IMPROVE IN THE COMING QUARTERS

Take up in the South West industrial market totalled 291,100 sq ft in the second quarter of 2023 (units over 50,000 sq ft), across just two deals. This brings the half-yearly total to 647,800 sq ft, 69% lower than the comparable period last year and 26% below the 5-year H1 average for the region.

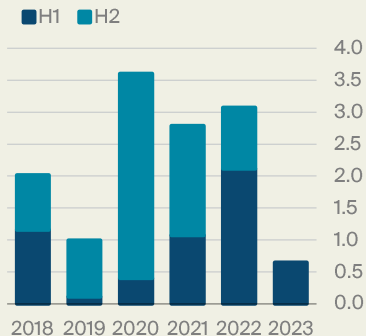
The decline in transaction activity is in line with the national picture, as wider macroeconomic conditions and inflationary pressures impact on business confidence and decision-making.

Take up in the South West over the past year has also been hampered by a shortage of high-quality stock available. Positively, quarter two saw five new speculative units totalling 680,000 sq ft complete construction (units 50,000 sq ft+). Only one of these, C342 St Modwen Park Chippenham, is over 250,000 sq ft in size, while the market for big-box units remains tight.

As this much needed high-quality space enters the market, we expect take up levels to improve in the coming quarters.

Take up (sq ft)

million square feet



Source: Knight Frank Research

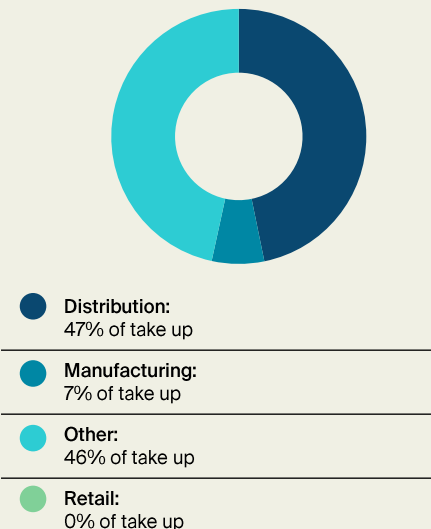
Quarter two saw battery manufacturer, GS Yuasa, expand into its new 175,000 sq ft distribution centre at Unit 8 Ignition Park, Swindon. The building was constructed with a strong focus on ESG credentials, targeting BREEAM 'Excellent' and EPC 'B'. GS Yuasa agreed a 15-year lease on the new-build, at £7.75 psf.

RISE IN DEMAND FROM LESS TRADITIONAL OCCUPIERS

Take up for the 12 months to end-June was 58% lower annually, at 1.6 million sq ft (units over 50,000 sq ft). Despite the annual decline in take up, the volume of space committed to other, less traditional occupiers increased by 64% year on year, and accounted for 46% of the annual total. This compares to 12% in the same period last year. Distribution firms remain active and comprised a further 47% of annual take up.

Take up by sector

Q3 2022 – Q2 2023



Source: Knight Frank Research

MARKET VIEW

Pressure on landlords to improve EPC ratings



BY RUSSELL CROFTS, PARTNER, BRISTOL LOGISTICS & INDUSTRIAL AGENCY

“Activity in Q2 2023 for the South West market as a whole was more in line with pre-pandemic levels, with take up of units 50,000 sq ft+ lagging behind. The market has its highest overall quantum of big box supply pipeline with over 1.75 million sq ft under construction throughout the region, notably Panattoni Park Avonmouth; and St Modwen Park Chippenham. New scheme starts remain absent from the market post mini-budget, and the macro economic position suggests there will be further delay before this changes.

Whilst there are early signs of some tenant distress (see Tuffinells administration), the picture for landlords of existing stock remains good. There is still evidence of strong rental growth on prime, and good second-hand stock, and voids remain at historic lows. The pressure on landlords to improve EPC ratings at refurbishment stage remains, but this is demanded by tenants and offset by rental growth.”

Occupier Market

647,800 sq ft

Occupier take up
H1 2023

4.3%

Vacancy rate
Q2 2023

£9.00 psf

Prime rents
Q2 2023

5.9%

Prime annual rental growth

“The region’s vacancy rate has been eased from the record low seen last quarter“

RISING COMPLETIONS EASE SUPPLY-SIDE PRESSURES

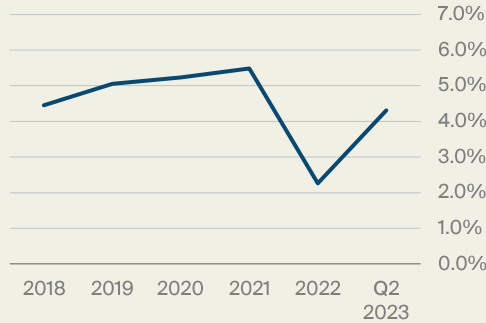
The volume of available floorspace stood at 3 million sq ft in Q2 (units over 50,000 sq ft). This is up from 1.5 million sq ft seen in Q1 and was strengthened by a number of new development completions during the quarter as well as the return of second-hand space. The region’s vacancy rate has therefore eased to 4.3% in Q2, from a record low of 2.2% in Q1.

Just over 1.3 million sq ft of space was under construction at end-June (units 50,000 sq ft+), with Panattoni’s 882,000 sq ft unit in Avonmouth comprising the vast the majority of this. The pace of speculative development commencements has cooled, with no new units breaking ground in Q2.

RENTAL LEVELS & OUTLOOK

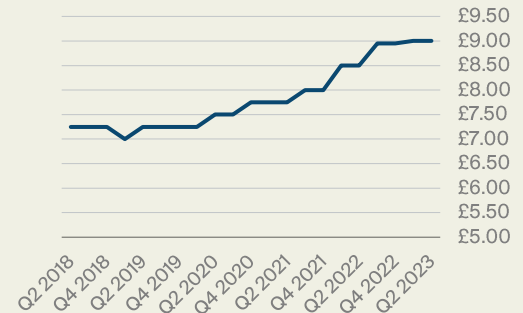
Reflecting a more moderate level of take up and supply-side increases, prime industrial rents in Bristol for units over 50,000 sq ft remained stable for Q2 2023, at £9.00 psf. In Swindon, prime rents increased by 3.3% in Q2, to £7.75 psf. Forecasts for 2023 show average rental growth of 3.7% for the South West region as a whole (RealFor).

Vacancy rate % of stock



Source: Knight Frank Research

Bristol - Prime Rents £ per sq ft



Source: Knight Frank Research

“Prime headline rents in Bristol for units over 50,000 sq ft remained stable in Q2, at £9.00 psf”

Key Occupier Deals H1 2023

PROPERTY	SIZE (SQ FT)	OCCUPIER	RENT (OR PURCHASE PRICE)	COMMENTS
Keypoint 224, Swindon	224,465	Panther Logistics	£8.15 psf	Second-hand
Unit 8 Ignition, Swindon	175,000	GS Yuasa	£7.75 psf	Build-to-Suit
DC115, Avonmouth	116,055	Gregory Distribution	£6.75 psf	Second-hand

Source: Knight Frank Research

Investment Market

£57.7 million

Investment total
H1 2023

£8.9 million

Average lot size
(last four quarters)

46%

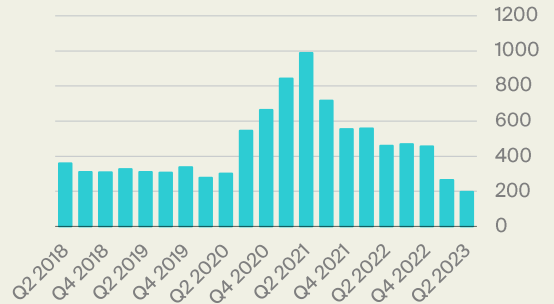
Investment by UK private property companies
(last four quarters)

5.50%

Prime yield
Q2 2023

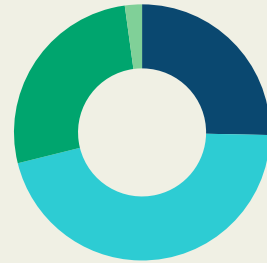
“The total volume invested in the 12 months to end-June 2023 was £196 million”

Investment totals (£m)
(four quarter rolling)



Source: Knight Frank Research

Investment by purchaser type
Q3 2022 – Q2 2023



- **UK institution:**
25% of investment
- **Listed Property Company:**
0% of investment
- **Private Property Company:**
46% of investment
- **Overseas Investor:**
27% of investment
- **Private/Other:**
2% of investment

Source: Knight Frank Research

“The share of investment by overseas buyers over the past year has declined to 27%”

SLOWDOWN IN INVESTOR ACTIVITY

Investment into industrial property in the South West has been slower in the first half of 2023, with £57.7 million transacting. This compares to £318 million H1 2022. The total invested in the 12 months to end-June 2023 was £196 million, down from £459 million recorded over the same period last year (-57%). Over the past year, 46% of the capital invested was by UK property firms. Overseas buyers accounted for a further 27%, this is down from 45% over the same period last year.

In tandem with the outward movement of prime yields evident across most UK regional industrial markets, prime industrial yields in Bristol softened by 25bps in Q2, to 5.50%.

Key Investment Deals

H1 2023

PROPERTY	TOWN	PRICE	YIELD	PURCHASER	VENDOR
Wessex Trade Centre	Poole	£12.6m	6.11%	Telereal Trillium	Bournemouth Borough Council
100-300 Dorcan, Murdock Road	Swindon	£4.2m	8.70%	Private Investor	DTZ Investors
SIG Distribution Unit, 87 St. Modwen Road	Plymouth	£3.2m	Undisclosed	Northtree IM	Palace Capital plc

Source: Knight Frank Research

We like questions, if you've got one about our research,
or would like some property advice, we would love to hear from you

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Methodology

This report has been prepared by Knight Frank Research.

Data and information within this report have been provided by Knight Frank occupier and investment teams across the Knight Frank UK network. Third party data sources are also utilised.

For the purposes of this report, take-up figures refer to spaces of 50,000 sq ft or more, that are let, pre-let or acquired for occupation.

Availability refers to all space available for immediate occupation as well as space under construction (built speculatively) that will be available for occupation within the next 12 months.

Investment figures refer to industrial property purchases where the primary motivation is the generation of income. Acquisitions for occupation are excluded. Land sales are included, where the end use of the land is known.



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